Montana Operations Manual *Policy*		Category	**Accounting**
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Issuing Authority	**Department of Administration** State Financial Services Division		

355 Employee Benefits

I. Purpose

This policy provides guidance on requirements associated with termination, other postemployment (OPEB), and pension benefits.

II. Scope

This policy applies to all state agencies and component units, excluding community colleges.

III. Outline

IV. Termination Benefits

This section provides guidance to State of Montana employers for measuring, recognizing, and reporting liabilities and expenditures related to all termination benefits. Termination benefits are defined as "benefits provided by employers to employees as an inducement to hasten the termination of services or as a result of a voluntary early termination (voluntary termination benefits)." The scope of this section does not cover unemployment compensation or postemployment benefits, such as pensions and OPEB. However, any increase in actuarial accrued liability associated with termination benefits is required to be separately disclosed.

Termination benefits are available in exchange for termination and not for employee services. When determining if a benefit is considered a termination benefit, professional judgment should be used considering the criteria listed below:

- Employer's intent
- How the employee views the benefit

- Is the benefit on condition of termination of employment prior to normal retirement age
- Length of time the benefit is available

A. Measurement of termination benefits

Termination benefit costs should include direct termination costs as well as any fringe benefits and any changes in the estimated costs of other employee benefits (such as compensated absences) resulting directly from the termination benefits. The effects of the termination benefit on defined benefit pension or OPEB obligations should be accounted for in accordance with State accounting policy related to those obligations.

1. Healthcare-related termination benefits

   For healthcare-related termination benefits, including healthcare continuation (COBRA), employers should measure healthcare-related costs by calculating the discounted present value of expected future benefit payments with the following requirements.

   a. Projection of benefits – based on two scenarios:

      - Large-scale, age-related program: segregate the benefits provided to terminated employees and their beneficiaries from those provided to active employees. Project the employer's expected future benefit payments, (expected benefit payment less any payments made by the terminated employee), based on projected total claims cost, or age-related premiums approximating claims costs for terminated employees.
      - Not large–scale, age-related program: segregate benefits provided to terminated employees and their beneficiaries from those provided to active employees for measurement purposes. The use of projected claims costs or age-related premiums is not required. Unadjusted premiums, (projected termination benefit costs less any payment made by the terminated employees), may be used as the basis for the projection of expected future benefit payments.

   b. Healthcare cost trend rate – the projection of expected future benefit payments should include an assumption regarding the healthcare cost trend rate, (rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments) for the periods covered by the employer's commitment to provide the benefits.
   c. Discount rate – determined by giving consideration to the estimated yield, over the period of time the benefits are to be provided, on the investments that are expected to be used to finance payment of benefits.

2. For non-healthcare-related termination benefits employers should calculate:

a. Benefits with fixed or determinable dates:

Discounted present value of expected future benefit payments with the assumption of changes in future cost levels during the employer's commitment to pay.

b. Benefits without fixed or determinable dates calculated by either:

- Discounted present value of future payments including assumption in future cost level changes during employer's commitment to pay.
- Undiscounted total of estimated future benefit payments at current cost level.
- If future payments are discounted, the discount rate should be determined by giving consideration to the nature and mix of current and expected investments that are to finance the benefits.

B. Recognizing liability and expense on full accrual basis

1. Voluntary termination

For financial statements prepared on the full accrual basis of accounting, recognize a liability and expense when employees accept the offer and amounts can be estimated. Liability/expense should be updated and recognized at the end of each fiscal year in the actuals ledger.

2. Involuntary termination

For financial statements prepared on the full accrual basis of accounting, recognize a liability and expense when those with authority to commit the State have approved the termination plan, the plan has been communicated to the employees, and amounts can be estimated. Liability/expense should be updated and recognized at the end of each fiscal year in the actuals ledger.

An involuntary termination identifies, at a minimum, the number of employees to be terminated, the job classifications or functions that will be affected and their locations, and when the termination is expected to occur. It also establishes the terms of the termination benefits in sufficient detail to enable employees to determine the type and amount of benefits they will receive.

If future service is a requirement for involuntary termination, a liability and expense for the portion of benefits that will be provided after completion of service will be recognized ratably over the future service period. Liability/expense should be updated and recognized at the end of each fiscal year.

C. Recognizing liability/expense on modified accrual basis

In the actuals ledger, liabilities and expenditures should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources. The remainder of the termination benefit liability/expense must be recorded in the entitywide ledger in the fund that will pay the benefit.

D. Effects on other obligations

The termination benefits effect on employer's defined benefit pension or OPEB obligation should be accounted for and reported in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 68− Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 or GASB Statement No. 45− Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, respectively.

An employer that provides termination benefits that effect defined benefit pension or OPEB obligations should disclose in the notes of the financial statements any change in the actuarial accrued liability.

E. Note disclosure

In the notes of the financial statements should disclose when the employer becomes obligated and any additional period the employee must render service in order to receive termination benefits. Information the notes should contain:

- Type(s) of benefit provided
- Number of employees affected
- Period of time that the benefits are expected to be provided
- Period the employer becomes obligated, if not identifiable from information on face of financial statements
- Cost of the termination benefit, if not identifiable from information on face of financial statements
- Significant methods and assumptions to determine the liabilities
- If the termination benefit cannot be estimated, but otherwise meets the requirements of this statement, that fact should be disclosed

V. Other postemployment benefits (OPEB)

OPEB Overview

GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75) replaces the requirements of Statements No. 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57 - OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The State of Montana and the Montana University System (MUS) provide optional postemployment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. Retirement eligibility criteria differ by retirement plan.

Section 19-3-2141, MCA, establishes a long-term disability plan trust fund (PERS-DCRP Disability) for all State of Montana Employees that participate in the Public Employee Retirement System-Defined Contribution Retirement Plan (PERS-DCRP). All new PERS members are initially members of the Public Employee Retirement System-Defined Benefit Retirement Plan (PERS-DBRP) and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. Only those participants that choose the PERS-DCRP are covered by the PERS-DCRP Disability plan.

OPEB plans are a form of deferred compensation. They are part of an exchange of salaries and benefits for employee services rendered and taken after the employee's services have ended. Therefore, based on accrual accounting, the cost of OPEB generally should be associated with the periods in which the exchange occurs, rather than with the periods when the benefits are paid or provided.

GASB 75 applies to any employer who provides OPEB where the employer pays all or part of the cost of the benefits, including implicit rate subsidies (the difference between a common or blended premium given to all employees, including retirees, and an age-adjusted premium that normally would be higher for retirees). GASB 75 applies to the State and its component units.

Retirees pay 100% of their healthcare contributions. Despite retirees being charged a higher participation rate than that of active members, the amount retirees contribute is not enough to offset the full amount of the group's healthcare costs, leading to an implicit rate subsidy that is reported as an employer contribution. The MUS retirees have less of an implicit rate subsidy; however, a subsidy exists and must be accounted for under GASB 75.

OPEB Impact and Reporting

The total OPEB liability generally is required to be determined through an actuarial valuation. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the total OPEB liability. The total OPEB liability is required to be measured as of a date no earlier than the end of the State's prior fiscal year and no later than the end of the employer's current fiscal year (the measurement date),and must be consistently applied from period to period.

The accounting for OPEB will be completed by DOA and MUS on an annual basis for reporting in the State's Comprehensive Annual Financial Report (CAFR). The State is required to report an annual OPEB expense, related deferred outflows of resources and deferred inflows of resources, note disclosures and required supplementary information. Component units that have an OPEB liability should contact DOA for guidance. Questions related to OPEB can be directed to the SAB Help Desk: SAccounting@mt.gov.

VI. GASB Statement No. 68

This section establishes state accounting policy for recording and disclosing pension costs by employers in accordance with generally accepted accounting principles (GAAP) as promulgated by GASB Statement No. 68− Accounting and Financial Reporting for Pensions. GASB Statement No. 68 supersedes all previous authoritative guidance on accounting and financial reporting for employer pension expenditures/expenses and related information. GASB Statement No. 68 applies to all state and local governmental employers, including governmental hospitals, colleges, and retirement systems that are employers and who provide a pension plan administered through a trust or similar agreement.

GASB Statement No. 68 establishes standards for the measurement, recognition, and display of pension expenditures/expenses and related liabilities, assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. Montana participates in single-employer and cost-sharing multiple-employer defined benefit pension plans. In addition, MUS and PERS allow participation in a defined contribution plan.

While expanded accounting entries and disclosures are required by the standard, no entity is required to change its funding methods outside of those imposed by contract, statute, or management.

A. Terminology

Agent Employer	An employer whose employees are provided with pensions through an agent multiple-employer defined benefit pension plan.
Closed period	A specific number of years that are counted from one date and declining to zero with the passage of time. *For example, if the recognition period is initially 5 years on a closed basis, 4 years remain after the first year, 3 years after the second year, and so forth.*
Contributions	Additions to a pension plan's fiduciary net position for amounts from employers, nonemployer contributing entities *(for example, state government contributions to a local government pension plan)*, or employees. Contributions can result from cash receipts by the pension plan or from recognition by the pension plan of a receivable from one of these sources.

Cost-sharing multiple-employer plan	A multiple-employer defined benefit pension plan in which the pension obligations to the employees of more than one employer are pooled and pension plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.
Covered employee payroll (*Total Payroll*)	The total payroll of employees that will be provided with retirement benefits through the pension plan, regardless of whether the compensation amounts are pensionable or not (also reference Pensionable Payroll).
Defined benefit pensions	Pensions for which the income or other benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The pensions may be stated as a specified dollar amount or an amount that is calculated based on one or more factors such as age, years of service, and compensation.
Defined contribution pensions	Pensions having terms that (a) provide an individual account for each employee; (b) define the contributions that an employer is required to make (or the credits that it is required to provide) to an active employee's account for periods in which that employee renders service; and (c) provide that the pensions an employee will receive will depend only on the contributions (or credits) to the employee's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other employees, as well as pension plan administrative costs, that are allocated to the employee's account.
Measurement period	The period between the prior and the current measurement dates.
Net pension liability	The liability of employers and nonemployer contributing entities to employees for benefits to be provided through a defined benefit pension plan.
Pensionable payroll	The amount of compensation subject to determination of pension contributions made to a plan based on statutory or contractual requirements. *For example, overtime amounts might not be considered in pensionable payroll, but would be a portion of covered payroll as defined above.*
Single-employer plan	A defined benefit pension plan that is used to provide pensions to employees of only one employer.
Special funding situations	Circumstances in which a nonemployer entity (*the State*) is legally responsible for making contributions directly to a plan that is used to provide pensions to the employees of another entity or entities and either of the following conditions exists: a. The amount of contributions for which the nonemployer entity legally is responsible is not dependent upon one or more events or circumstances unrelated to the pensions.

	b. The nonemployer entity is the only entity with a legal obligation to make contributions directly to a pension plan.
Total pension liability	The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of this Statement.

B. Defined benefit plans

1. Single-employer plans

   The plans of this type that the State of Montana employers participate in are: Highway Patrol Officers' Retirement System (HPORS) and Judges' Retirement System (JRS).

2. Cost-sharing multiple-employer plans

   The plans of this type that the State and local government employers participate in are as follows: PERS-DBRP, TRS, Sheriffs' Retirement System (SRS), Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and, Volunteer Firefighters' Compensation Act (VFCA). It was determined that defined benefit retirement plans administered by the Public Employees' Retirement Administration (MPERA) and TRS meet these GASB Statement No. 68 classifications as follows:

   a. Single-employer plan with no special funding:
      - Judges' Retirement System
      - Highway Patrol Officers' Retirement System

   b. Cost Sharing Multi-employer plan with no special funding:
      - Sheriffs' Retirement System
      - Game Wardens' and Peace Officers' Retirement System

   c. Cost Sharing Multi-employer plan with special funding:
      - Municipal Police Officers' Retirement System
      - Firefighters' Unified Retirement System
      - Volunteer Firefighters' Compensation Act
      - Teachers' Retirement System

   d. The PERS-DB is a Cost Sharing Multi-employer plan that receives nonemployer funding where a portion is considered special funding and portion is not special funding. The Coal Trust related activities are those nonemployer contributions that are not considered a special funding.

C. Defined Contribution Plans

The plans of this type that the State and local government employers participate in are as follows: PERS-DC and MUS-RP.

1. The PERS-DC receives nonemployer contributing entity supplemental funding that is classified as a special funding situation.

2. The MUS-RP does not receive any nonemployer entity support.

D. Accounting for defined benefit pensions – employers

In accordance with GASB Statement No. 68, employers participating in defined benefit plans, and reflecting transactions on a full-accrual basis, will be required to recognize: a net pension liability (NPL), which is a proportionate share of the total pension liability (TPL) minus the plan's fiduciary net position; pension expense incurred during the measurement period; and, for those plans who are recipients of nonemployer contribution, revenue. Contributions made after the measurement date will be recorded as a deferred outflow. Other items, such as demographic changes in a plan, differences in expected and actual investment returns, and changes to the plans may trigger additional deferred inflow/outflow transactions or may need to be reflected as pension expense. Regardless of plan type, items may be presented in the aggregate by an employer.

GASB Statement No. 68 has varying accounting and disclosure requirements dependent on actuarial valuation timing, plan type, and funding types. The DOA will record all necessary accounting entries for State employers, including the OCHE, and the State's component units, except MUS entities outside of the OCHE business unit and MSF.

Most of the necessary accounting amounts will be provided by the pension plan administrator through the publishing of the GASB Statement No. 68 actuary reports and schedules. An item that can be included directly from an employer's records is any contribution made to the plan subsequent to the measurement date of the net pension liability and reflected as a deferred outflow of resources. However, the plans will make this information available through their respective websites as well. Despite central recording of the items, we created example entries below to assist in understanding what needs to be considered in relation to accounting entries. In addition, note disclosures will still be required for entities that issue stand-alone financial statements and related guidance is provided below. The retirement systems provide the information on their websites as well. In years subsequent to the year of implementation, the journal entries below will require additional deferred inflow and outflow amounts and an adjustment to net position may not be necessary.

1. All defined benefit plan types− Single or Multiemployer with or without special funding

   Contributions made to the pension plan administrators are recorded through the normal journal processing on SABHRS as shown:

Employer Entry

To record the payment of current portion of pension contributions made.			
All Fund Types regardless of accrual accounting method – ACTUALS Ledger			
Debit	*61402*	*Retirement/Pension Expense/Expenditure (Employer Contributions made to Plan)*	*10,000*
Credit	*1104*	*Cash*	*10,000*

Pension Plan Entry

To record the payment of current portion of pension contributions made.			
Pension Fund Type – ACTUALS Ledger			
Debit	*1104*	*Cash*	*10,000*
Credit	*5XXXXX*	*Contribution*	*10,000*

Note: All journals below are presented as required in the year of implementation. Therefore, some elements may be different in future years and the examples will be adjusted as deemed necessary.

2. All defined benefit plan types− Single or Multi-employer with or without special funding

   An employer entry to reclassify beginning deferred outflows for contributions made during the first year of net pension liability measurement needs recorded as follows:

Employer Entry

To reclassify contributions made in the prior year to establish a beginning balance in deferred outflows.			
Governmental Fund Types – ENTITYWIDE Ledger			
Nongovernmental Fund Types – ACTUALS Ledger			
Debit	*1918*	*Deferred Outflows – Contributions to a Plan*	*1,150,000*
Credit	*4101*	*Net Position - Unrestricted*	*1,150,000*

Note: Although Net Position was used as the credit account in this journal, the CAFR process will create a new line item to indicate the related amounts are a reflection of prior year adjustment for beginning Deferred Outflows made to Pension Plans.

3. Single employer plan with no special funding

   An employer entry to reflect amounts associated with the measurement of net pension liability elements must be recorded as follows:

Employer Entry

To record the current portion of annual net pension liability, expense, and deferred items.

Governmental Fund Types – ENTITYWIDE Ledger;

Nongovernmental Fund Types – ACTUALS Ledger

Debit	*4101*	*Net Position - Unrestricted*	*25,000,000*
Debit	*6A002*	*Pension Expense*	*1,825,000*
Credit	*1918*	*Deferred Outflow for Prior Year Employer Contributions made to Plan)*	*1,150,000*
Credit	*2123*	*Deferred Inflow-Pension Related*	*525,000*
Credit	*2606*	*Net Pension Liability*	*25,150,000*

Note: A plan may have a Net Pension Asset opposed to a Net Pension Liability. In this case, a credit would be processed to account 4201 – Net Position Restricted opposed to 2606 and a debit to 1919 – Net Pension Asset would be entered instead of using 4101.

4. Cost sharing multiple employer plan and no special funding*

   An employer entry to reflect amounts associated with the measurement of net pension liability elements must be recorded as follows:

Employer Entry

To record the payment of current portion of annual pension liability, expense, and deferred items.

Governmental Fund Types – ENTITYWIDE Ledger

Nongovernmental Fund Types – ACTUALS Ledger

Debit	*4101*	*Net Position - Unrestricted*	*19,834,965*
Debit	*6A002*	*Pension Expense*	*1,872,588*
Credit	*1918*	*Pension Contribution Offset-Deferred Outflow for Prior Year Contributions Made to the Plan*	*2,161,313*
Credit	*2123*	*Deferred Inflow-Pension Related*	*2,137,351*
Credit	*2606*	*Net Pension Liability*	*17,408,889*

Note: The various amounts above would be reflective of an individual employer's proportionate share of the collective amount as reported by the plan administrator.

The total net pension liability for the example plan is $157,135,903 and the employer's proportionate share is 11.078874%.

5. Cost sharing multiple employer plan with special funding

   An employer entry to reflect amounts associated with the measurement of net pension liability elements must be recorded as follows:

Employer Entry

To record the payment of current portion of annual pension liability, expense, deferred items, and nonemployer entity pension contribution grant revenue.

Governmental Fund Types – ENTITYWIDE Ledger;

Nongovernmental fund types – ACTUALS Ledger

Debit	*4101*	*Net Position - Unrestricted*	*5,376,329*
Debit	*6A002*	*Pension Expense*	*1,542,086*
Credit	*1918*	*Deferred Outflow for Prior Year Employer Contributions Made to the Plan*	*585,832*
Credit	*2123*	*Deferred Inflow-Pension Related*	*579,335*
Credit	*581212*	*Nonemployer Pension Contribution-Grant Revenue*	*1,034,515*
Credit	*2606*	*Net Pension Liability*	*4,718,733*

Note: The various amounts above would be reflective of an individual employer's proportionate share of the collective amount as reported by the plan administrator. The total net pension liability for the example plan above is $157,135,903 and the employer proportionate share is 3.002963%. The nonemployer contributing entity's share of the NPL is 67.085427% and this is reflected as employer grant revenue in the example above.

6. Contributions made after the measurement date

   GASB Statement No. 68 (par. 34 & 57), for single employer and multi-employer cost sharing plans, respectively, require that an employer reclassify contributions made after the measurement date of the NPL, but prior to the employer's fiscal year-end, as a deferred outflow of resources. An example entry of this reclassification is as follows:

Employer Entry

To record deferred outflow item for contributions made subsequent to the measurement date.

Governmental Fund Types – ENTITYWIDE Ledger			
Nongovernmental Fund Types – ACTUALS Ledger			
Debit	*1918*	*Deferred Outflow of Resources–Pension Related*	*588,500*
Credit	*61433*	*Pension Contribution Offset-NB (Employer Contributions made to plan)*	*588,500*

E. Notes to the financial statements for defined benefit plans – employers (Elements will apply to single and multiemployer plans unless otherwise designated)

1. Employers should include the following information in the financial statement footnotes for each defined benefit pension plan in which they participate:

   If the total amounts are not identifiable from information presented in the financial statements, the total of an employer's pension liabilities, assets, deferred outflows and inflows related to pensions, pension expense, and contributions recognized by the plans for the period associated with net pension liabilities should be disclosed.

   a. Plan description

      The name of the plan, the name of the entity that administers the plan, and identification of the plan as a single-employer or cost-sharing multiple-employer defined benefit pension plan.

      - A brief description of the types of benefits including:
        - The classes of employees covered
        - The types of benefits
        - The key elements of the pension formulas
        - The terms or policies with respect to automatic postemployment benefit changes, whether automatic or ad hoc
        - The authority under which benefit terms are established or may be amended
      - The number of employees covered by the benefit terms separately identifying numbers of:
        - Inactive employees (or their beneficiaries) currently receiving benefits
        - Inactive employees entitled to but not yet receiving benefits
        - Active employees
      - A brief description of contribution requirements including:
        - The basis for determining the employer's contribution to the plan

    - Identification of the authority under which contribution requirements of the employer, nonemployer contributing entities, if any, and employees are established or may be amended
    - The contribution rates of the aforementioned entities
    - Unless otherwise disclosed, contributions recognized by the plan from the employer during the reporting period

- Information on separately issued pension plan financial reports and how to obtain the report

    - Information about the plans' fiduciary net position or an employer's share thereof

b. Assumptions and other inputs

- Assumptions and other inputs in the measurement of the total pension liability including:

    - Inflation
    - Salary Changes
    - Ad hoc benefit changes
    - Source of mortality rate assumptions
    - The dates of experience studies on which significant assumptions are based should be disclosed. If different rates are used for different periods, information should be disclosed about what rates are applied to the different periods of measurement

- Information about the discount rate including:

    - The rate applied in the measurement of total pension liability and the change in the discount rate since the prior measurement date, if any
    - Assumptions made about projected cash flows into and out of the plan
    - The long-term expected rate of return on pension plan investments and a brief description of how this was determined
    - If the discount rate incorporates a municipal bond rate, the municipal rate used and its source
    - The periods of projected benefit payments to which the long-term expected rate of return and, if used, the municipal bond rate applied to determine the discount rate
    - The assumed asset allocation of the pension plan's portfolio, the long-term expected real rate of return for each major asset class, and whether the expected rates of return are presented as arithmetic or geometric means, if not otherwise disclosed; and
    - Measures of the net pension liability calculated using a discount rate that is: one percentage point higher and one percentage point lower than that used as the plan's rate. (also referred to as sensitivity analysis)

- Pension plan's fiduciary net position - reference back to the plan's financial statements and how to obtain them will be made in relation to this item, including a website address, unless unavailable, and then the employer should disclose the information as a part of their notes:

- However, the employer still must disclose that the plan's fiduciary net position has been determined on the same basis used by the pension plan, and a brief description of the pension plan's basis of accounting, including the policies with respect to benefit payments (including refunds of employee contributions) and the valuation of pension plan investments should be included; and
- If significant changes have occurred that indicate that the disclosures included in the pension plan's financial report generally do not reflect the facts and circumstances at the measurement date, information about the substance and magnitude of the changes should be disclosed.

2. Additional notes to the financial statements

   a. In addition to the above notes to the financial statements required in subparagraph 1, the following information is required to be disclosed for single-employer plans:

      - The beginning and ending balances of total pension liability, the plan's fiduciary net position, and the net pension liability;

      - The effect during the period of the following items, if applicable, on the balances required to be disclosed above:
        - Service cost
        - Interest on the total pension liability
        - Changes of benefit terms
        - Differences between expected and actual experience in the measurement of the total pension liability
        - Changes of assumptions or other inputs
        - Contributions from the employer
        - Contributions from nonemployer contributing entities
        - Contributions from employees
        - Pension plan net investment income
        - Benefit payments, including refunds of employee contributions
        - Pension plan administrative expense
        - Other changes, separately identified if individually significant.

      - The following items need disclosed, as applicable:
        - The measurement date of the net pension liability, the date of the actuarial valuation on which the total pension liability is based, and, if applicable, the fact that updated procedures were used to roll forward the total pension liability to the measurement date
        - A brief description of changes of assumptions or other inputs that affected measurement of the total pension liability since the prior measurement date

    - A brief description of changes of benefit terms that affected measurement of the total pension liability since the prior measurement date
    - A brief description of the nature of changes between the measurement date of the net pension liability and the employer's reporting date that are expected to have a significant effect on the net pension liability, and the amount of the expected resultant change in the net pension liability, if known
    - The amount of pension expense recognized by the employer in the reporting period
    - The employer's balances of deferred outflows of resources and deferred inflows of resources related to pensions, classified as follows, if applicable:
        1. Differences between expected and actual experience in the measurement of the total pension liability
        2. Changes of assumptions or other inputs
        3. Net difference between projected and actual earnings on pension plan investments
        4. The employer's contributions to the pension plan subsequent to the measurement date of the net pension liability
    - A schedule presenting the following:
        1. For each of the subsequent five years, and in the aggregate thereafter, the net amount of the employer's balances of deferred outflows of resources and deferred inflows of resources in that will be recognized in the employer's pension expense
        2. If the employer does not have a special funding situation, the amount of the employer's balance of deferred outflows of resources in that will be recognized as a reduction of the net pension liability

b. In addition to the notes to the financial statements required above in subparagraph 1, the following information is required to be disclosed for <u>multi-employer plans</u>:

- The employer's proportionate share (amount) of the collective net pension liability and, if an employer has a special funding situation:
    - The portion of the nonemployer contributing entities' total proportionate share (amount) of the collective net pension liability that is associated with the employer
    - The total of the employer's proportionate share (amount) of the collective net pension liability and the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability that is associated with the employer

- The employer's proportion (percentage) of the collective net pension liability, the basis on which its proportion was determined, and the change in its proportion since the prior measurement date

- The measurement date of the collective net pension liability, the date of the actuarial valuation on which the total pension liability is based, and, if applicable, the fact that updated procedures were used to roll forward the total pension liability to the measurement date
- A brief description of changes of assumptions or other inputs that affected measurement of the total pension liability since the prior measurement date
- A brief description of changes of benefit terms that affected measurement of the total pension liability since the prior measurement date
- A brief description of the nature of changes between the measurement date of the collective net pension liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability, and the amount of the expected resultant change in the employer's proportionate share of the collective net pension liability, if known
- The amount of pension expense recognized by the employer in the reporting period
- The employer's balances of deferred outflows of resources and deferred inflows of resources related to pensions, classified as follows, if applicable:
    - Differences between expected and actual experience in the measurement of the total pension liability
    - Changes of assumptions or other inputs
    - Net difference between projected and actual earnings on pension plan investments
    - Changes in the employer's proportion and differences between the employer's contributions (other than those to separately finance specific liabilities of the individual employer to the pension plan) and the employer's proportionate share of contributions
- The employer's contributions to the pension plan subsequent to the measurement date of the collective net pension liability.
- A schedule presenting the following:
    - For each of the subsequent five years and in the aggregate thereafter, the net amount of the employer's balances of deferred outflows of resources and deferred inflows of resources in the subparagraph above that will be recognized in the employer's pension expense
    - The amount of the employer's balance of deferred outflows of resources in the subparagraph above that will be included as a reduction of the collective net pension liability
- The amount of revenue recognized for the support provided by nonemployer contributing entities, if any.

3. Required supplementary information

a. Single-employer plans only

The following should be presented in the aggregate for the State of Montana single employer plans (as of the measurement date of the net pension liability):

- A 10-year schedule of changes in the net pension liability that separately presents the information required in 2a above
- 10-year schedule presenting the following for each year:
  1. The total pension liability
  2. The pension plan's fiduciary net position
  3. The net pension liability
  4. The pension plan's fiduciary net position as a percentage of the total pension liability
  5. The covered-employee payroll
  6. The net pension liability as a percentage of covered-employee payroll.
- As of the employer's most recent fiscal year-end and being an actuarially determined contribution is calculated, a 10-year schedule presenting the following for each year:
  1. The actuarially determined contribution of the employer. For purposes of this schedule, actuarially determined contributions should exclude amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan.
  2. The amount of contributions recognized by the pension plan in relation to the actuarially determined contribution of the employer. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.
  3. The difference between the actuarially determined contribution of the employer and the amount of contributions recognized by the pension plan in relation to the actuarially determined contribution of the employer.
  4. The covered-employee payroll.
  5. The amount of contributions recognized by the pension plan in relation to the actuarially determined contribution of the employer as a percentage of covered-employee payroll.

b. Multi-employer cost sharing plans only

- Each cost-sharing plan should be presented separately through which pensions are provided. As of the measurement date of the net pension liability for plans without a special funding situation, a 10-year schedule presenting the following for each year:

1. The employer's proportion (percentage) of the collective net pension liability
2. The employer's proportionate share (amount) of the collective net pension liability
3. The employer's covered-employee payroll
4. The employer's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
5. The pension plan's fiduciary net position as a percentage of the total pension liability

- As of the measurement date of the net pension liability for plans with a special funding situation, a 10-year schedule presenting the following for each year:

  1. The employer's proportion (percentage) of the collective net pension liability
  2. The employer's proportionate share (amount) of the collective net pension liability
  3. The portion of the nonemployer contributing entities' total proportionate share (amount) of the collective net pension liability that is associated with the employer
  4. The total of (2) and (3)
  5. The employer's covered-employee payroll
  6. The employer's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
  7. The pension plan's fiduciary net position as a percentage of the total pension liability

- As of the employer's most recent fiscal year-end, and being contributions to the plans are statutorily required, a 10-year schedule presenting the following for each year:

  1. The statutorily or contractually required employer contribution. For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan
  2. The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables
  3. The difference between the statutorily or contractually required employer contribution and the amount of contributions recognized

by the pension plan in relation to the statutorily or contractually required employer contribution
4. The employer's covered-employee payroll
5. The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the employer's covered-employee payroll

- Information about factors that significantly affect trends in the amounts reported in the schedules required in subparagraph (b) above should be presented as noted to the schedules.

F. Defined contribution plans

According to GASB Statement No. 68, employers participating in defined contribution plans should recognize annual pension expenditures/expenses equal to their required contributions, in accordance with the terms of the plan. Agencies should record the expenditure/expense based on the modified or full accrual basis, applying the same method that is used to record employer contributions. Any difference between required and actual contributions causes a pension liability or pension asset which should be shown separately on the financial statements.

1. All defined contribution plan types - employer using a modified or full accrual basis of accounting, regardless of a special funding situation. Contributions made to the pension plan administrators are recorded through the normal journal processing on SABHRS:

Employer Entry

To record the payment of current portion of pension contributions made.			
All Fund Types regardless of accrual accounting method – ACTUALS Ledger			
Debit	*61402*	*Retirement/Pension Expense/Expenditure (Employer Contributions made to Plan)*	*10,000*
Credit	*1104*	*Cash*	*10,000*

Pension Plan Entry

To record the payment of current portion of pension contributions made.			
Pension Fund Type – ACTUALS Ledger			
Debit	*1104*	*Cash*	*10,000*
Credit	*5XXXXX*	*Contribution*	*10,000*

However, contributions must be reclassified as pension expense for full accrual accounting

Employer Entry

To reclassify defined contribution amounts made throughout the year to the plan as pension expense.			
Governmental Fund Types – ENTITYWIDE Ledger			
Nongovernmental Fund Types – ACTUALS Ledger			
Debit	*6A002*	*Pension Expense*	*1,875,000*
Credit	*61433*	*Pension Contribution Offset-NB (Employer Contributions made to Plan)*	*1,875,000*

2. Defined contribution plan types - employer using full accrual basis of accounting and the plan has a special funding situation.

   If the employer's defined contribution pension plan is a recipient of special funding from a nonemployer contributing entity, an additional entry to recognize additional pension expense and grant revenue equal to the nonemployer contribution is required.

Employer Entry

To recognize nonemployer entity contribution amounts to employer pension expense.			
Governmental Fund Types – ENTITYWIDE Ledger			
Nongovernmental Fund Types – ACTUALS Ledger			
Debit	*6A002*	*Pension Expense*	*1,875*
Credit	*581212*	*Nonemployer Pension Contribution-Grant Revenue-Non Budgeted*	*1,875*

3. Notes to the financial statements

   The following information should be disclosed in the footnotes to the financial statements for each defined contribution plan in which the employer is required to contribute, regardless of a special funding situation:

   - The name of the plan, identification of the entity that administers the plan, and identification of the plan as a defined contribution plan
   - A brief description of the plan provisions and the authority under which they are established or amended
   - Contribution requirements (i.e., contribution rate in dollars or as a percentage of salary) of plan members, employer, and other contributing entities, as well as the authority under which the requirements are established or amended
   - The amount of pension expense recognized by the employer in the reporting period

- The amount of forfeitures reflected in pension expense recognized by the employer in the reporting period
- The amount of the employer's liability outstanding at the end of the period, if any

In addition to the note disclosure requirements above, employers in a special funding situation must also disclose:

- The proportion of total net pension expense for pensions provided through the pension plan that is represented by the employer's expense; and
- The amount of revenue recognized as a result of the support provided by nonemployer contributing entities.

G. Accounting for Nonemployer contributing entity

Several of the defined benefit pension plans and one defined contribution pension plan receive additional contributions from a nonemployer contributing entity (the State of Montana) as noted in sections V; B, 3 and C, a. When a nonemployer's contributions are considered a special funding situation, the nonemployer is required to reflect a share of the pension plan's net pension liability. Otherwise, the nonemployer contributing entity only reflects an expenditure for contributions provided to the plan.

1. All defined benefit plan types (Single or Multi-employer with or without special funding)

   A nonemployer entry to reclassify beginning deferred outflows for contributions made during the first year of net pension liability measurement* needs recorded as follows:

To reclassify contributions made in the prior year to establish a beginning balance in deferred outflows.

Governmental Fund Types – ENTITYWIDE Ledger

Nongovernmental Fund Types – ACTUALS Ledger

Debit	*1918*	*Deferred Outflows – Contributions to a Plan*	*13,048,938*
Credit	*4101*	*Net Position - Unrestricted*	*13,048,938*

Note: Although Net Position was used as the credit account in this journal, the CAFR process will create a new line item to indicate the related amounts are a reflection of prior year adjustment for beginning Deferred Outflows for the contributions made to Pension Plans.

2. Single employer and multi-employer cost sharing defined benefit plans with no special funding nonemployer contributing entity journal:

To reclassify annual nonemployer entity pension contributions as grant expenditures.

All Fund Types – ACTUALS Ledger

Debit	*66123*	*Grant Expense-Pension Related-NB*	*8,500,000*
Credit	*61433*	*Retirement/Pension Expense/Expenditure-NB (Nonemployer Contributions made to Plan)*	*8,500,000*

3. Single employer and multi-employer cost sharing defined benefits plans with special funding to reflect pension liability* related items for the nonemployer contributing entity:

To record the payment of current portion of annual pension liability, expense, and deferred items.

Governmental Fund Types – ENTITYWIDE Ledger;

Nongovernmental fund types – ACTUALS Ledger

Debit	*4101*	*Net Position*	*119,753,646*
Debit	*66123*	*Grant Expense – Nonemployer Pension Contributions*	*11,305,756*
Credit	*2123*	*Deferred Inflow-Pension Related*	*12,904,259*
Credit	*1918*	*Deferred Outflow-Pension Related*	*13,048,938*
Credit	*2606*	*Net Pension Liability*	*105,106,205*

**Note: The various amounts above would be reflective of the nonemployer entity's proportionate share of the collective amount as reported by the plan administrator, with the contribution expense adjusted for prior accounting journal posted. The total net pension liability for the example plan above is $179,034,121.98. The nonemployer contributing entity's share of the NPL is 66.888728%.*

4. Notes to financial statements

The following information should be disclosed about the pension plan through which benefits are provided:

- The name of the pension plan, identification of the public employee retirement system or other entity that administers the pension plan, and identification of the pension plan as a single-employer, agent, or cost-sharing pension plan
- A brief description of the benefit terms, including: (1) the classes of employees covered; (2) the types of benefits; (3) the key elements of the

pension formulas; (4) the terms or policies, if any, with respect to automatic postemployment benefit changes, including automatic COLAs, and ad hoc postemployment benefit changes, including ad hoc COLAs; and (5) the authority under which benefit terms are established or may be amended

- A brief description of contribution requirements, including (1) the basis for determining the governmental nonemployer contributing entity's contributions to the pension plan (for example, statute, contract, an actuarial basis, or some other manner); (2) identification of the authority under which contribution requirements of employers, nonemployer contributing entities, and employees are established or may be amended; and (3) the contribution rates (in dollars or as a percentage of pensionable payroll) of those entities for the reporting period. Also, the amount of contributions recognized by the pension plan from the governmental nonemployer contributing entity during the reporting period (measured as the total of amounts recognized as additions to the pension plan's fiduciary net position resulting from actual contributions and from contributions recognized by the pension plan as current receivables), if not otherwise disclosed
- Whether the pension plan issues a stand-alone financial report (or the pension plan is included in the report of a public employee retirement system or another government) that is available to the public and, if so, how to obtain the report

Significant assumptions and other inputs used to measure the total pension liability, including assumptions about inflation, salary changes, and ad hoc postemployment benefit changes (including ad hoc COLAs) should be disclosed. With regard to mortality assumptions, the source of the assumptions.

The following information should be disclosed about the discount rate:

- The discount rate applied in the measurement of the total pension liability and the change in the discount rate since the prior measurement date, if any
- Assumptions made about projected cash flows into and out of the pension plan, such as contributions from employers, nonemployer contributing entities, and employees
- The long-term expected rate of return on pension plan investments and a brief description of how it was determined, including significant methods and assumptions used for that purpose
- If the discount rate incorporates a municipal bond rate, the municipal bond rate used and the source of that rate
- The periods of projected benefit payments to which the long-term expected rate of return and, if used, the municipal bond rate applied to determine the discount rate
- The assumed asset allocation of the pension plan's portfolio, the long-term expected real rate of return for each major asset class, and whether the

expected rates of return are presented as arithmetic or geometric means, if not otherwise disclosed

- Measures of the governmental nonemployer contributing entity's proportionate share of the collective net pension liability calculated using: (1) a discount rate that is 1-percentage-point higher than that used in the plan's actuarial valuation, and (2) a discount rate that is 1-percentage-point lower than that used in the plan's actuarial valuation.

The following additional information should be disclosed, if applicable:

- The governmental nonemployer contributing entity's proportionate share (amount) of the collective net pension liability, its proportion (percentage) of the collective net pension liability, the basis on which its proportion was determined, and the change in its proportion since the prior measurement date
- The measurement date of the collective net pension liability, the date of the actuarial valuation on which the total pension liability is based, and, if applicable, the fact that update procedures were used to roll forward the total pension liability to the measurement date
- A brief description of changes of assumptions or other inputs that affected measurement of the total pension liability since the prior measurement date
- A brief description of changes of benefit terms that affected measurement of the total pension liability since the prior measurement date
- A brief description of the nature of changes between the measurement date of the collective net pension liability and the governmental nonemployer contributing entity's reporting date that are expected to have a significant effect on the governmental nonemployer contributing entity's proportionate share of the collective net pension liability, and the amount of the expected resultant change in the governmental nonemployer contributing entity's proportionate share of the collective net pension liability, if known
- The amount of expense recognized by the governmental nonemployer contributing entity in the reporting period as a result of the special funding situation
- The governmental nonemployer contributing entity's balances of deferred outflows of resources and deferred inflows of resources as a result of the special funding situation, classified as follows, if applicable:
    - Differences between expected and actual experience in the measurement of the total pension liability
    - Changes of assumptions or other inputs
    - Net difference between projected and actual earnings on pension plan investments

    - Changes in the governmental nonemployer contributing entity's proportion and differences between the governmental nonemployer contributing entity's contributions (other than those to separately finance specific liabilities of the individual nonemployer contributing entity to the pension plan) and the governmental nonemployer contributing entity's proportionate share of contributions
    - The governmental nonemployer contributing entity's contributions to the pension plan subsequent to the measurement date of the collective net pension liability

  A schedule presenting the following:

    - For each of the subsequent five years and in the aggregate thereafter, the net amount of the governmental nonemployer contributing entity's balances of deferred outflows of resources and deferred inflows of resources that will be recognized in the governmental nonemployer contributing entity's expense
    - The amount of the governmental nonemployer contributing entity's balance of deferred outflows of resources in subparagraph (g) that will be included as a reduction of the collective net pension liability.

5. The following disclosures need reported as required supplementary information (RSI):
   - As of the measurement date of the net pension liability, a 10-year schedule presenting the following for each year:
     - The governmental nonemployer contributing entity's proportion (percentage) of the collective net pension liability
     - The governmental nonemployer contributing entity's proportionate share (amount) of the collective net pension liability
     - The pension plan's fiduciary net position as a percentage of the total pension liability
   - As of the nonemployer contributing entity's most recent fiscal year-end and as contributions are statutorily required, a 10-year schedule presenting the following for each year:
     - The governmental nonemployer contributing entity's statutorily or contractually required contribution. For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any, to separately finance specific liabilities of the individual governmental nonemployer contributing entity to the pension plan.
     - The amount of contributions recognized by the pension plan in relation to the governmental nonemployer contributing entity's statutorily or contractually required contribution. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the governmental

nonemployer contributing entity's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.

- The difference between the governmental nonemployer contributing entity's statutorily or contractually required contribution and the amount of contributions recognized by the pension plan in relation to its statutorily or contractually required contribution.

Information about factors that significantly affect trends in the amounts reported as RSI should be presented as notes to the schedules.

VII. Pension reporting

A. Introduction

This chapter establishes state accounting policies for the financial reporting and disclosure of pension plan information in annual financial reports issued by the MPERA, TRS, MUS, and the State in accordance with GAAP as promulgated in GASB Statement No. 67− Financial Reporting for Pension Plans. GASB Statement No. 67 supersedes most authoritative guidance on accounting and financial reporting for defined benefit pension plans for governmental entities and note disclosures for defined contribution plans issued previously.

1. Defined benefit plans

GASB Statement No. 67 applies to state and local governmental pension plans that are administered through trusts or equivalent arrangements in which: contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable; pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms; pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members. GASB Statement No. 67 states a defined benefit pension is a pension for which the income or other benefits that the plan member will receive at or after separation from employment are defined by the benefit terms; the amount specified may be an established dollar amount or determined by a calculation based on one or more factors such as age, years of service, and compensation.

Although the majority of GASB Statement No. 67 applies to defined benefit pension plans, this statement also requires specific footnote disclosures for defined contribution plans.

2. Summary of reporting requirements

Disclosures are required both in annual financial reports issued for the retirement plans and in the State's CAFR.

Note: In the year of implementation, restatement is required when comparative financial statements are presented.

GASB Statement No. 67 requires that a pension plan financial report include two financial statements and two supplementary schedules, with footnote disclosures for each.

1. Statement of fiduciary net position

This is prepared on the accrual basis and consists of plan assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position as of fiscal year-end.

<u>Assets</u>

Cash/cash equivalent:

- Consists of cash accounts 1101 through 1109 and short term investment accounts 1613 and 1642.

Receivables (net):

Usually short term, receivables consist of accounts 1201 through 1206, 1208 through 1216, 1245, 1405 through 1407, 1611, and 2525. The CAFR category due from other funds (accounts 1230 and 1306) is also considered to be a general receivable for pension reporting. The total due from other MPERA plans must equal the total due to other MPERA plans. In addition, pension plans are required to separately display the principal components of the receivables category. Principal components may include employer and employee contributions receivable as well as interest and dividends receivable.

Other receivables:

Categories for reporting purposes consist of the following accounts:

- Interfund loans receivable – 1501
- Due from other governments – 1302, 1303
- Long-term notes/loans receivable – 1207, 1211, 1404

Investments:

All plan investments should be reported at fair value as of fiscal year-end. As with receivables, the principal components of investments (mortgages, real estate, venture capital, etc.) should be separately displayed. For the CAFR the component of the investments are disclosed in the footnote(s). The investment accounts are as follows:

- Equity in pooled investments – 1617, 1618, 1621, 1622, 1626, 1627
- Investments – 1601 through 1610, 1623, 1624, 1625, 1644, 1645, 2501, 2509, 2512, plus any additional 16xx accounts established to account for pension investments (see the investment disclosures section of this policy for additional information).

Assets used in plan operations:

Buildings, furniture, equipment and other assets used in plan operations should be reported at historical cost less accumulated depreciation or amortization. The accounts used to record operations assets on SABHRS are:

- Land – 1701
- Building/Improvements – 1702, 1703, 1707, 1708
- Equipment – 1704, 1709
- Other fixed assets – 1705, 1710 through 1714
- Intangible assets – 1809
- Other assets – 1401, 1801, 1803, 1806, 1901, 1902, 1904, 1905

Agencies should contact the State Financial Services Division if they use any accounts not listed, and require assistance with classification.

Deferred outflow of resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period.

Liabilities

According to GASB Statement No. 67, plan liabilities for benefits and refunds should be recognized when due and payable in accordance with the terms of the plan. All other plan liabilities should be recognized on the accrual basis. The following SABHRS accounts are categorized as liabilities:

- Accounts payable – 2101, 2107, 2115, 2145, and 2301. Accounts payable includes the CAFR category Due to other funds (2106 and 2130).
- Inter-entity loans payable – 2102
- Due to other governments – 2103, 2508, 2540
- Other liabilities – 2105, 2203, 2408, 2409, 2506, 2507, 2510, 2519, 2522
- Deferred revenue – 2505
- Property held in trust – 2114, 2201, 2502, 2503, 2504, 2513, 2517, 2518, 2520, 2521, 2526
- Installment purchase/lease payable – 2104, 2108
- Compensated absences payable – 2605, 2625

  Note: Total due to other MPERA plans must equal total due from other MPERA plans

Deferred inflow of resources

A deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Fiduciary net position

The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources as of fiscal year-end should be reported as net position restricted for pensions.

2. Statement of Changes in Plan Net Position

This includes additions to, deduction from and the net increase (decrease) in net position.

Additions

The following four categories should be separately displayed in the additions section of the statement of changes in plan net position:

- Employer contributions
- Member (employee) contributions
- Nonemployer entity contributions
- Net investment income:
    - Net appreciation (depreciation) in the fair value of plan investments.
    - Interest income; dividend income and other income not included above.
    - Total investment expense, if separable from investment income and the administrative expense of the plan

Deductions

- Benefits and refunds paid to plan members and beneficiaries
- Total administrative expense, separately displayed

Net increase/decrease in fiduciary net position

Net increase/decrease is the difference between total additions and total deductions. This amount should be reported as the net increase or decrease in net position.

3. Financial statement footnotes

This should include the following disclosures for the MPERA, TRS, and the CAFR.

Plan description

- Type of plan e.g., single employer, cost-sharing multiple-employer
- The number of participating employers and nonemployer contributing entities
- Information on the pension plan's board and its compensation
- Classes of employees covered and the number of covered members e.g., active, retired. Disclosures should also state if plan is closed to new members.

Description of types of benefits

- Summary of significant accounting policies
- Basis of accounting
- Description of how the fair value of investments is determined

Benefit Terms

- Authority under which benefits are established and may be amended
- Types of benefits provided by through the pension plan

Contributions

- Authority under which funding sources are established or amended, for employers and nonemployer contributing entities.
- Required contribution rates, in dollars or as a percentage of pensionable payroll Note: This information is required to be submitted to the State Financial Services Division for inclusion in the State's CAFR.

Investments

- Investment policies, including: the procedures for establishing and amending policy decisions; policies on asset allocation, and significant policy changes for the reporting period
- How fair value of investments is determined
- Identification of investments in any one organization that represents five-percent or more of the plan's fiduciary net position.
- The annual money-weighted return on plan investments, net expenses, and disclosure of this netting

Other items

- Total pension liability
- Pension plan's fiduciary net position
- Net pension liability
- Plan's fiduciary net position as a percentage of the total pension liability
- Significant assumptions and inputs used to measure the total pension liability
- Information about the discount rate, including measures of the net pension liability using a discount rate 1% lower and 1% higher than used in the actuarial valuation
- The date of the actuarial valuation on which the total pension liability is based and, if applicable, the fact that update procedures were used to roll forward the total pension liability to the plan's fiscal year-end

4. **Required supplementary information**
This includes four supplementary schedules displaying information on a ten-year horizon and accompanying notes to be displayed immediately after the financial statement footnotes. The schedule data in subparagraphs 1 and 2 can be presented within two individual schedules or combined into one ten-year presentation.

Schedule of changes in net pension liability

This schedule should present information for each year the beginning and ending balances of the total pension liability, the plan's fiduciary net position and net pension liability and the effects on these items from the following as applicable:

- Service cost
- Interest on total pension liability
- Changes in benefit terms
- Differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability
- Changes of assumptions about future economic or demographic factors or of other inputs
- Contributions from employers
- Contributions from nonemployer contributing entities
- Contributions from plan members

- Pension plan net investment income
- Benefit payments, including refunds of plan member contributions
- Pension plan administrative expense
- Other changes, separately identified if individually significant

Schedule of pension plan liability

This schedule should present information for each year including:

- Total pension liability
- Pension plan's fiduciary net position
- Net pension liability
- Pension plan's fiduciary net position as a percentage of the total pension liability
- Pensionable employee payroll
- Net pension liability as a percentage of covered-employee payroll.

Schedule of actuarially determined contributions (ADC)

This schedule should present an actuarially determined contribution amount, when calculated and it should identify whether the information relates to employers, nonemployer contributing entities, or both:

- The ADC amounts determined for each contributing entity;
- For cost-sharing plans, the contractually required ADC, if different than that above
- The amount of contributions recognized during the fiscal year in relation to the ADC
- Any difference between the ADC assessed by the actuarial valuation and the amounts recognized by the plan
- Pensionable payroll
- Contributions recognized by the plan in relation to the ADC as a percentage of pensionable payroll

A schedule of the annual money-weighted average rate of return on pension plan investments

Notes to the required schedules

- Actuarial methods and significant assumptions used for calculating the actuarially determined contribution schedule amounts.
- Information about factors that significantly affect trends in the other 10-year schedule amounts presented.

5. Investment disclosures

Plan investments (excluding insurance contracts) are required to be reported at their fair value as of fiscal year-end. The fair value of an investment is the amounts that the plan could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. If determinable, brokerage commissions and other costs normally incurred in a sale should be deducted. The following methods may be used to measure fair value:

- The market price if there is an active market for the investment
- If there is no active market for the investment, the market value of similar investments may be used to estimate fair value
- If market price is not available and there is not a market price for similar investments, fair value may be estimated using a forecast of expected cash flows as long as the expected cash flows are discounted at a rate commensurate with the risk involved
- Unallocated insurance contracts* may be reported at contract value
- Allocated insurance contracts**should be excluded from plan assets

**An unallocated insurance contract is a contract with an insurance company under which payments to the insurance company are accumulated in an unallocated pool or pooled account (not allocated to specific members) to be used either directly or through the purchase of annuities to meet benefit payments when employees retire. Monies held by the insurance company under an unallocated contract may be withdrawn and otherwise invested.*
***An allocated insurance contract is a contract with an insurance company under which related payments to the insurance company are currently used to purchase immediate or deferred annuities for individual members. Also may be referred to as an annuity contract.*

The statement of changes in fiduciary net position includes an additions section that represents the following components of net investment income:

Net appreciation/depreciation in the fair value of plan investments includes realized gains and losses on investments purchased and sold during the fiscal year. Realized and unrealized gains and losses should not be separately displayed in the statement of changes in plan net position but may be disclosed in the footnotes as follows:

- Realized gains and losses should be based on the difference between the sale price and the original cost of the investment.
- The disclosure must state that (1) the calculation of realized gains and losses is independent of the measurement of net appreciation (depreciation) in the fair value of investments and (2) unrealized gains and losses on investments sold in the current fiscal year that were held for more than one year were included in the net appreciation (depreciation) in plan assets reported in both prior and current fiscal years.

Interest, dividend, and other income not included in investment income calculated as noted above. Interest income should be reported at the stated interest rate. Premiums and discounts on debt securities should not be amortized. This does not apply to individual investment pools that the pension plan may invest in which should continue to record discount and premium amortization.

Total investment expense which includes investment management and custodial fees and all other significant investment-related costs, will be recorded by the Board of Investments (BOI). Total investment expense must be displayed separately from investment income in the additions section of the statement.

In addition to the normal investment entries, the following are examples of the type of SABHRS entries that are required to be made by the BOI in order to bring investments to market in accordance with GASB Statement No. 67:

To record an increase in the market value of the Retirement fund bond pool (RFBP)			
Debit	*1618*	*RFBP appreciation/depr*	*112,000*
Credit	*51XXXX*	*Investment appr/depr*	*112,000*

To record a decrease in the market value of mortgages			
Debit	*51XXXX*	*Investment appr/depr*	*103,000*
Credit	*1602*	*Mortgage appreciation/depr*	*103,000*

Note: These entries should be made for each type of investment held by the pension plans.

6. CAFR disclosures

The following format should be used when submitting the required disclosures to SAB:

All information is required to be disclosed in the footnote section of the State's CAFR is noted above in sections V.E – Defined Benefit Employer Financial Statement Footnotes; V.F.3 – Defined Contribution Employer Financial Statement Footnotes, and V.G.4 – Notes to Financial Statements for Nonemployer Contributing Entities.

7. Defined contribution plans

GASB Statement No. 67 requires footnote disclosures be provided for defined contribution plans. A defined contribution pension plans specifies how contributions to a member's accounts are to be determine, rather than the amount of retirement income the member is to receive. The retirement amount received depends only on the amount contributed to the member's account, investment earnings on the contribution, and any forfeited contributions of the other members. The following information should be sent to SAB by the date listed in MOM Policy 375− Fiscal Year-end Procedures.

a. Description of the plan

- Statement that the plan is a defined contribution plan and disclosures of the number of participating employers and other contributing entities.

- Type of employees covered and total current membership.
- Description of the plan provisions and the authority on which the plan is based.
- Contribution rates for members, employers, and other contributing entities as well as the authority on which the rates are based.

b. Summary of significant accounting policies.

c. Basis of accounting, fair value of plan assets (unless plan assets are presented at fair value), and a description of how the fair value is presented.

VIII. Internal Revenue Code (IRC) §457 Plans

Deferred Compensation Plan (457 Plan) for State and local governments have been established in IRC section (§) 457. Accounting and financial reporting standards for 457 plans have been established in GASB Statement No. 32− Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—a recission of GASB Statement No. 2 and an amendment of GASB Statement No. 31. This activity is to be accounted for in a pension trust fund. The valuation provisions established in GASB Statement No. 31 should be applied. Further guidance on the valuation provisions of GASB Statement No. 31− Accounting and Financial Reporting for Certain Investments and for External Investment Pools can currently be found in MM 2-98-09. Relevant provisions of MM 2-98-09 will soon be incorporated into a new investment policy.